

# Economic & Revenue Review

Presented to  
Independent Insurance Agents and Brokers

Steve Lerch  
Executive Director

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Olympia, Washington



**WASHINGTON STATE  
ECONOMIC AND REVENUE FORECAST COUNCIL**



# Summary

- Oil prices have declined further since the November forecast
- 2014 and 2015 GDP growth are slightly stronger than in the November forecast
- Employment gains indicate a strengthening labor market, but the number of long-term unemployed remains elevated
- Risks to the baseline include the potential for slower Chinese economic growth, a Greek exit from the Eurozone, disruptions to the housing recovery and geopolitical unrest
- The GF-S revenue forecast has been increased by \$107 million for the 2013-15 biennium and by \$129 million for the 2015-17 biennium



# New information since November economic forecast

## GDP growth data and forecast

- 2014 first estimate: 2.4% (2.2% in November forecast)
- 2015 Blue Chip increased from 3.0% to 3.2%

## U.S. employment data for November - January

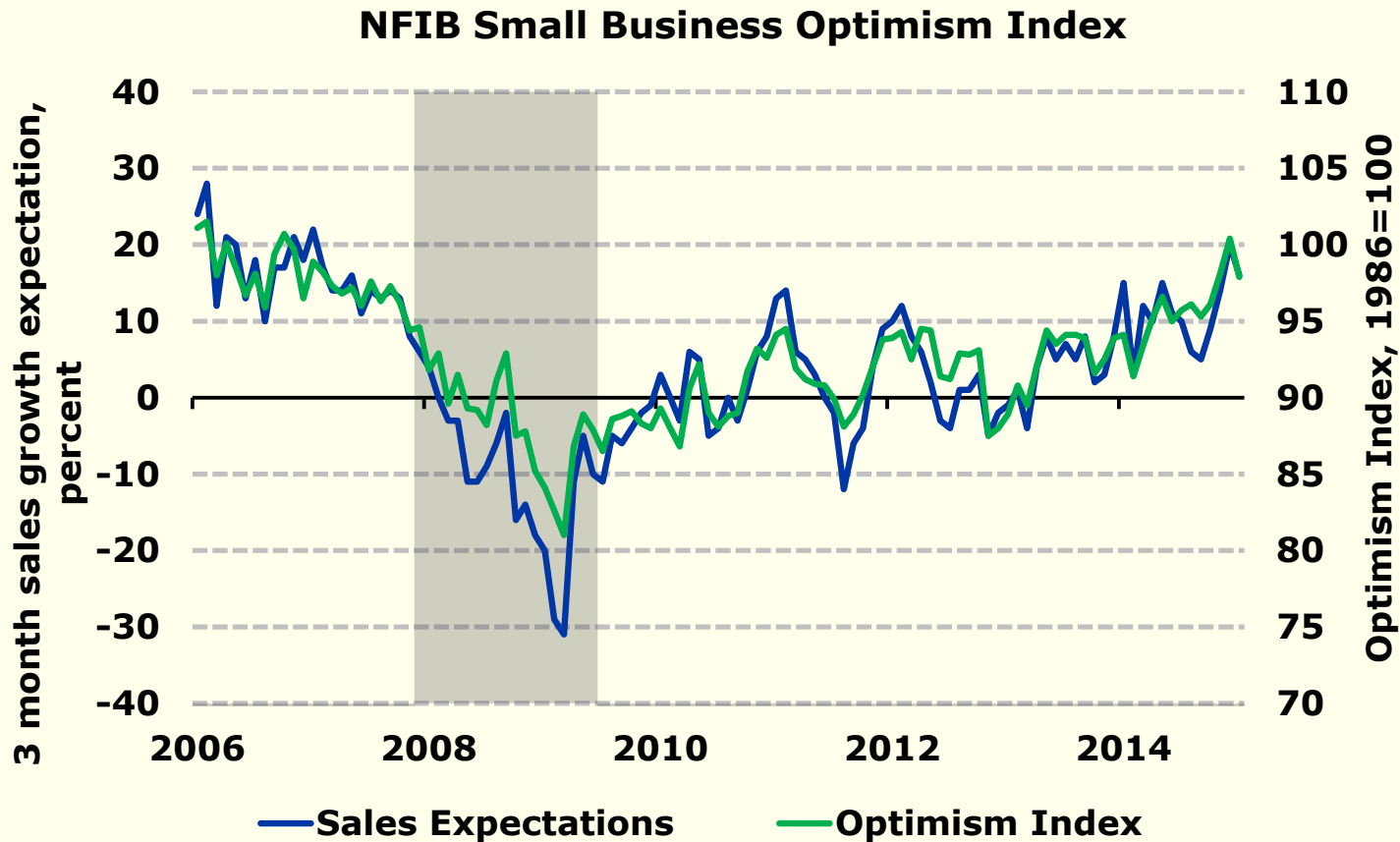
- Average monthly increase of 336,000 net new jobs

## Washington employment data for November & December

- Average monthly increase of 7,000 net new jobs



# Small business optimism and sales expectations getting back to pre-recession levels



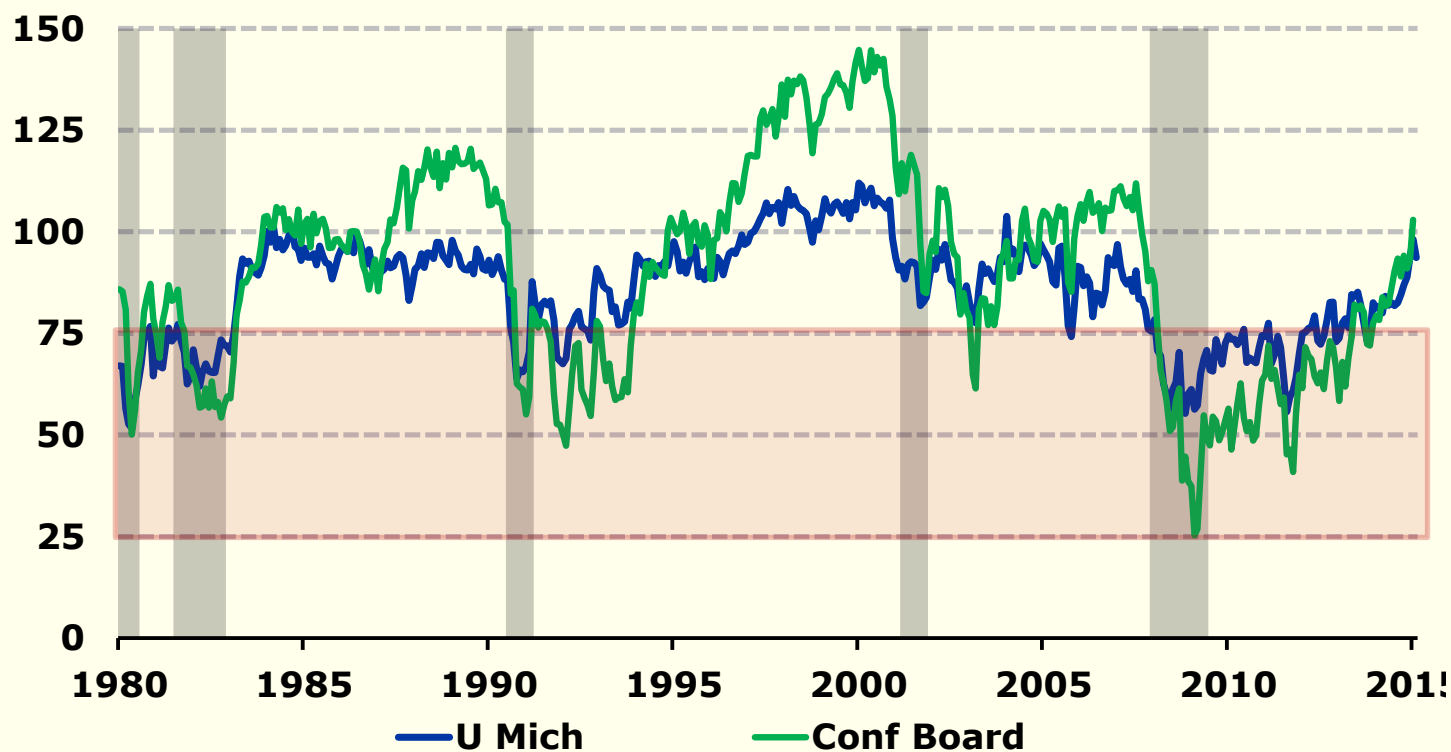


# Consumer confidence is improving

**Index**

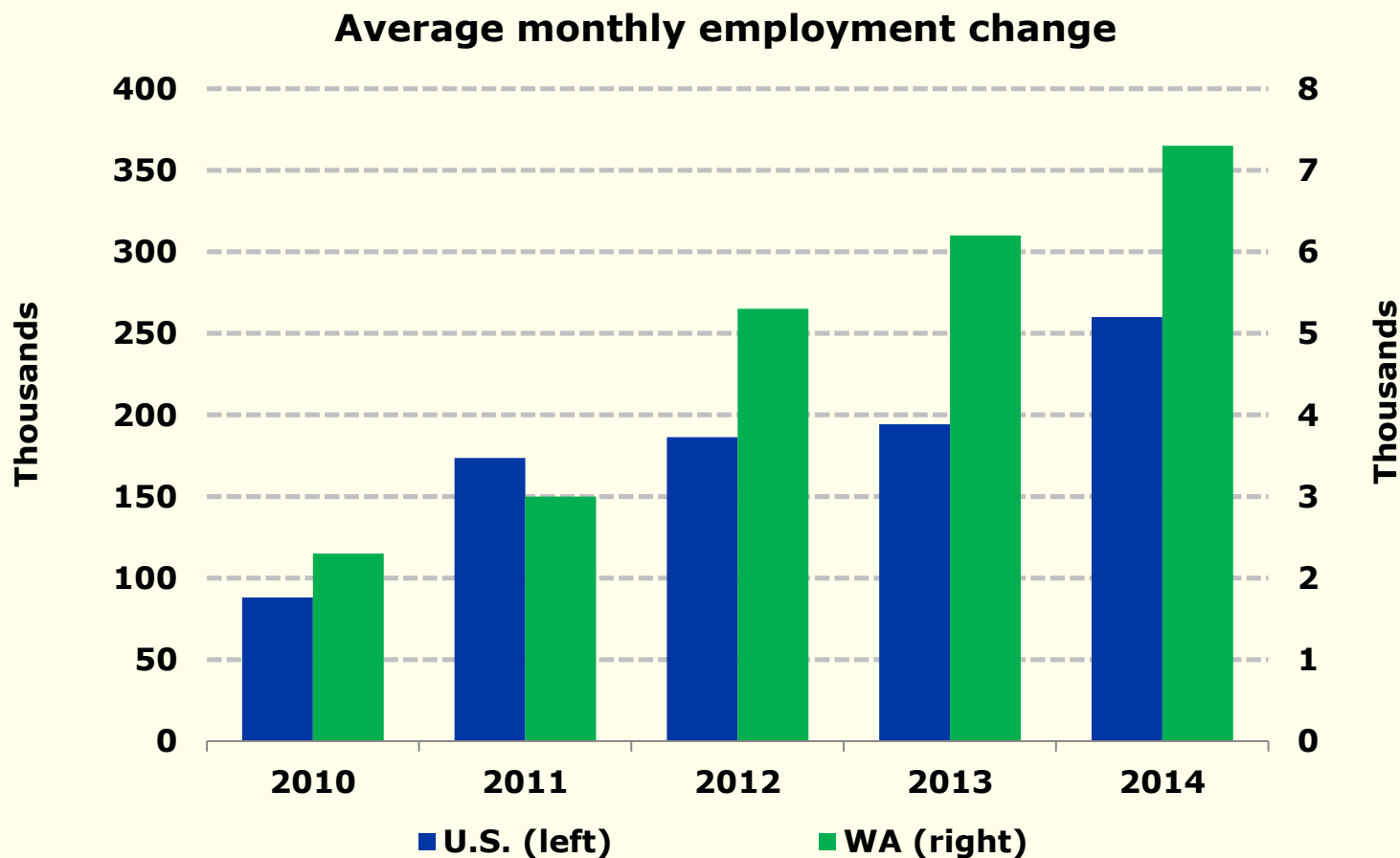
**Mich: 1966Q1 = 100, SA**

**Conf Board: 1985 = 100, SA**





# Job creation continues to strengthen





# Number of long-term unemployed workers remains high

Long-term unemployed as share of all unemployed:

Apr. 2010: 46%

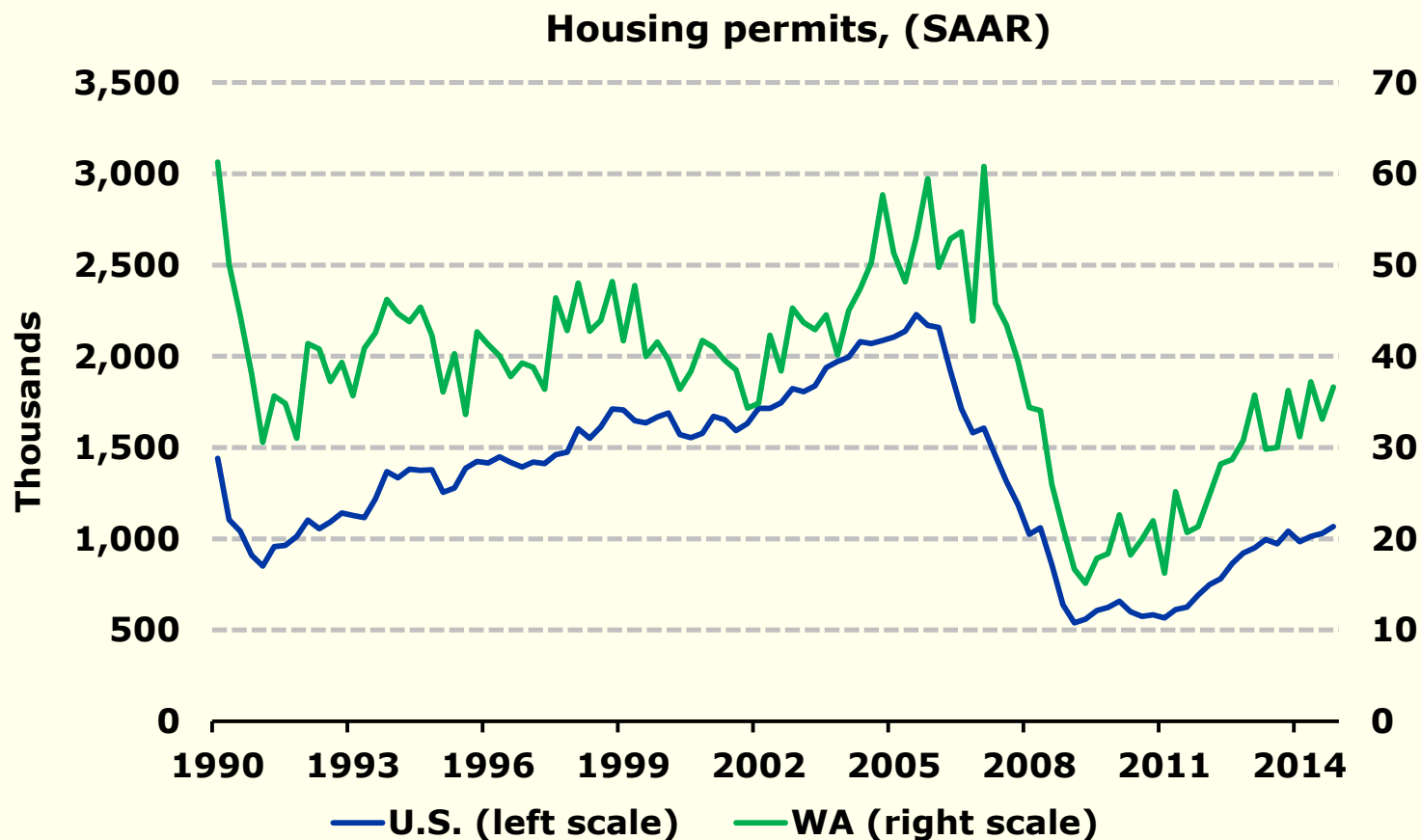
Jan. 2015: 32%



Source: Bureau of Labor Statistics; data through January 2015



# Housing permits – trending up but still below pre-recession levels







# Non-transportation equipment exports are declining

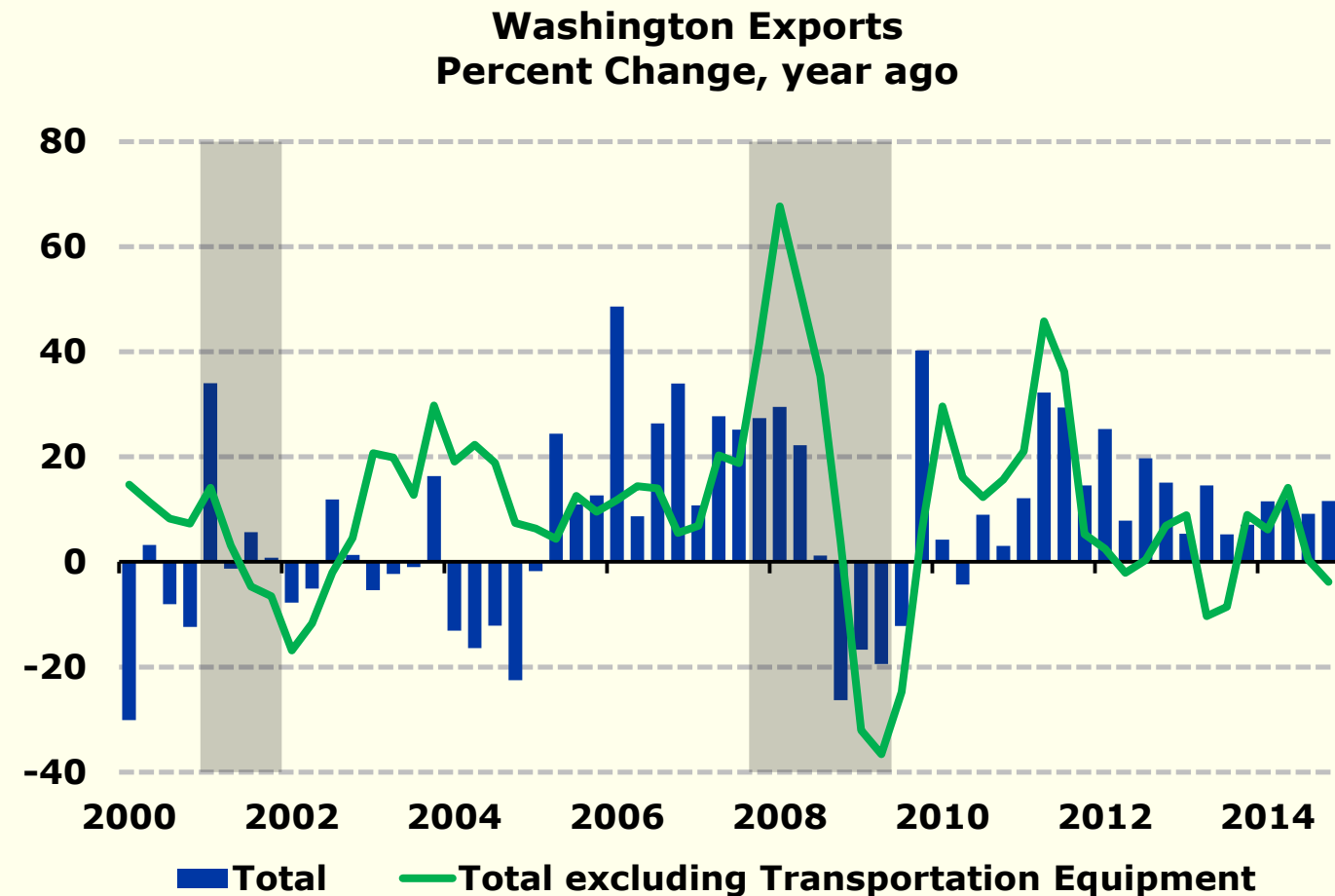
2014Q4  
export  
growth:

Agricultural  
products:  
+1.7%

Petrol/coal  
products:  
-12.4%

Computer &  
electronics:  
+7.2%

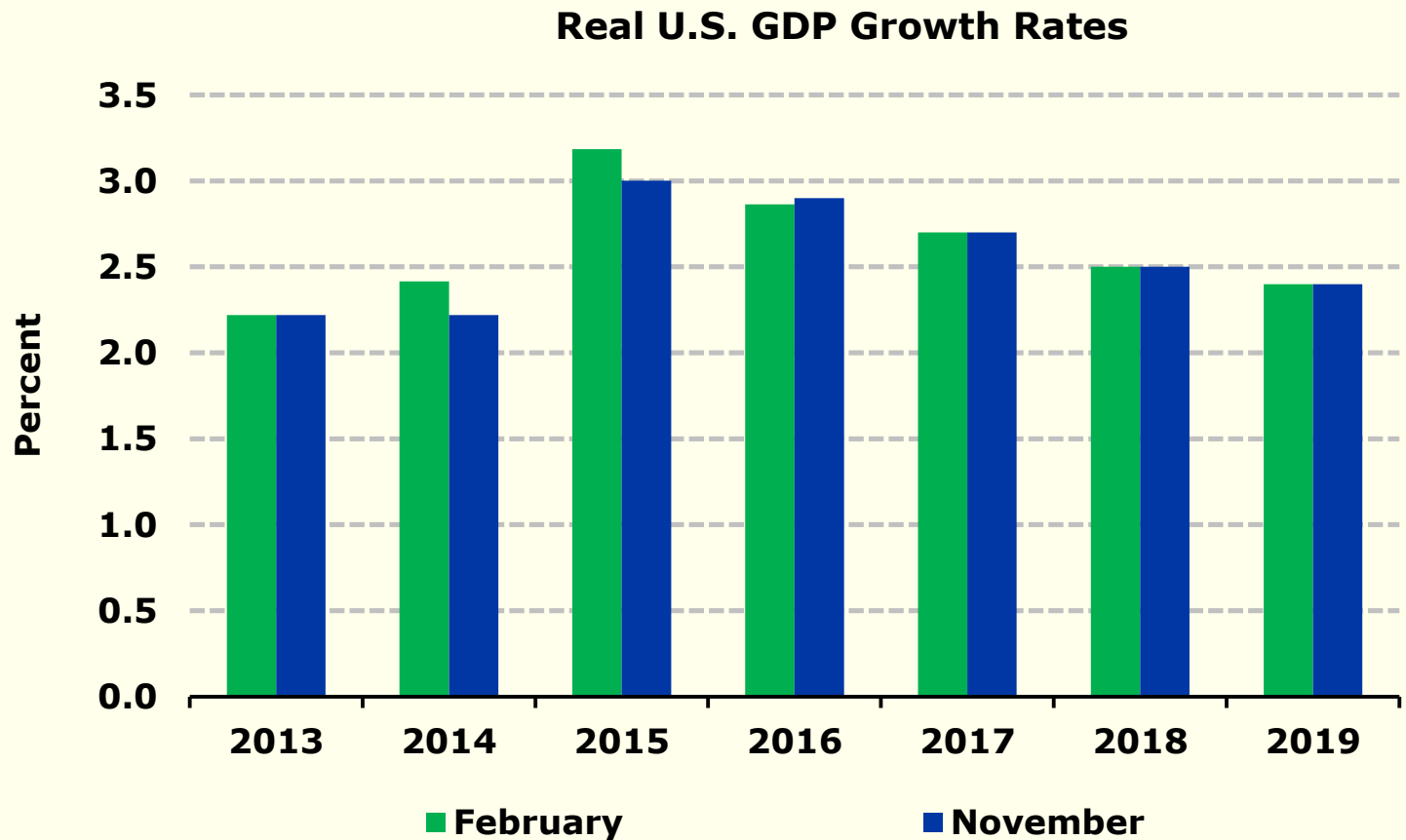
Food  
products:  
-11.5%



Source: Wiser Trade Data; through 2014Q4

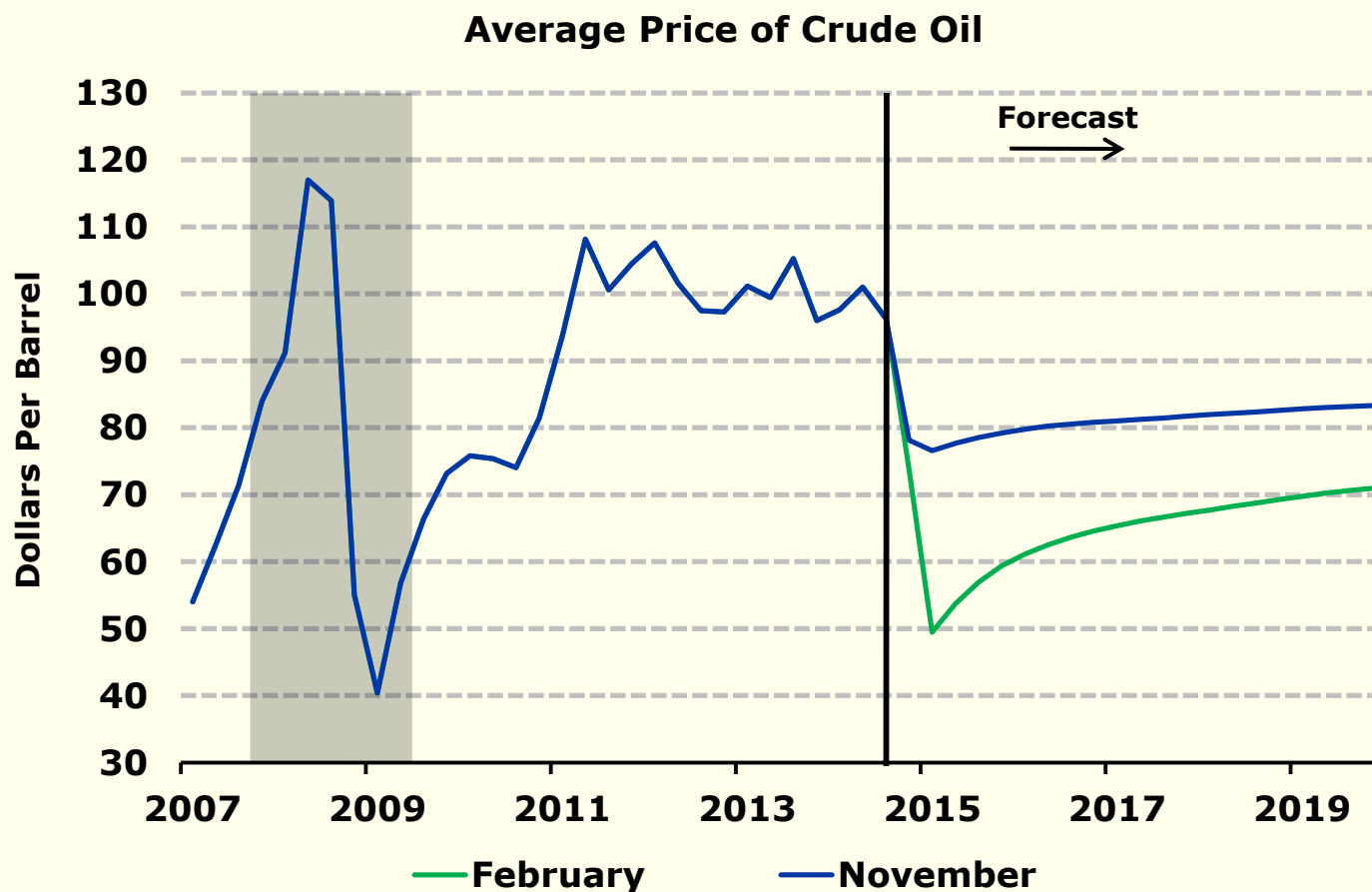


# Real GDP growth rates for 2014-15 are slightly higher than the November forecast



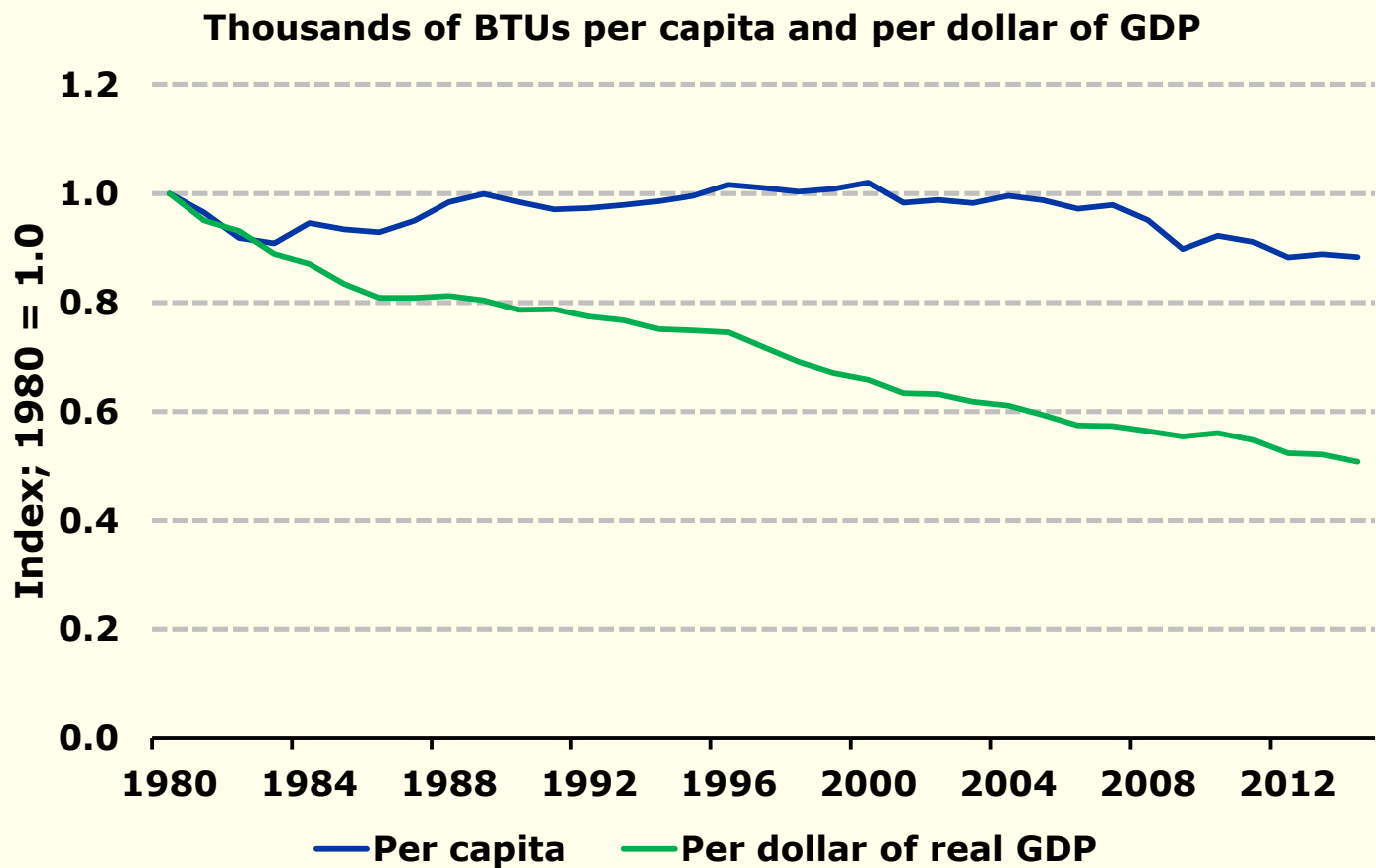


# Oil prices dropped even further than expected in November



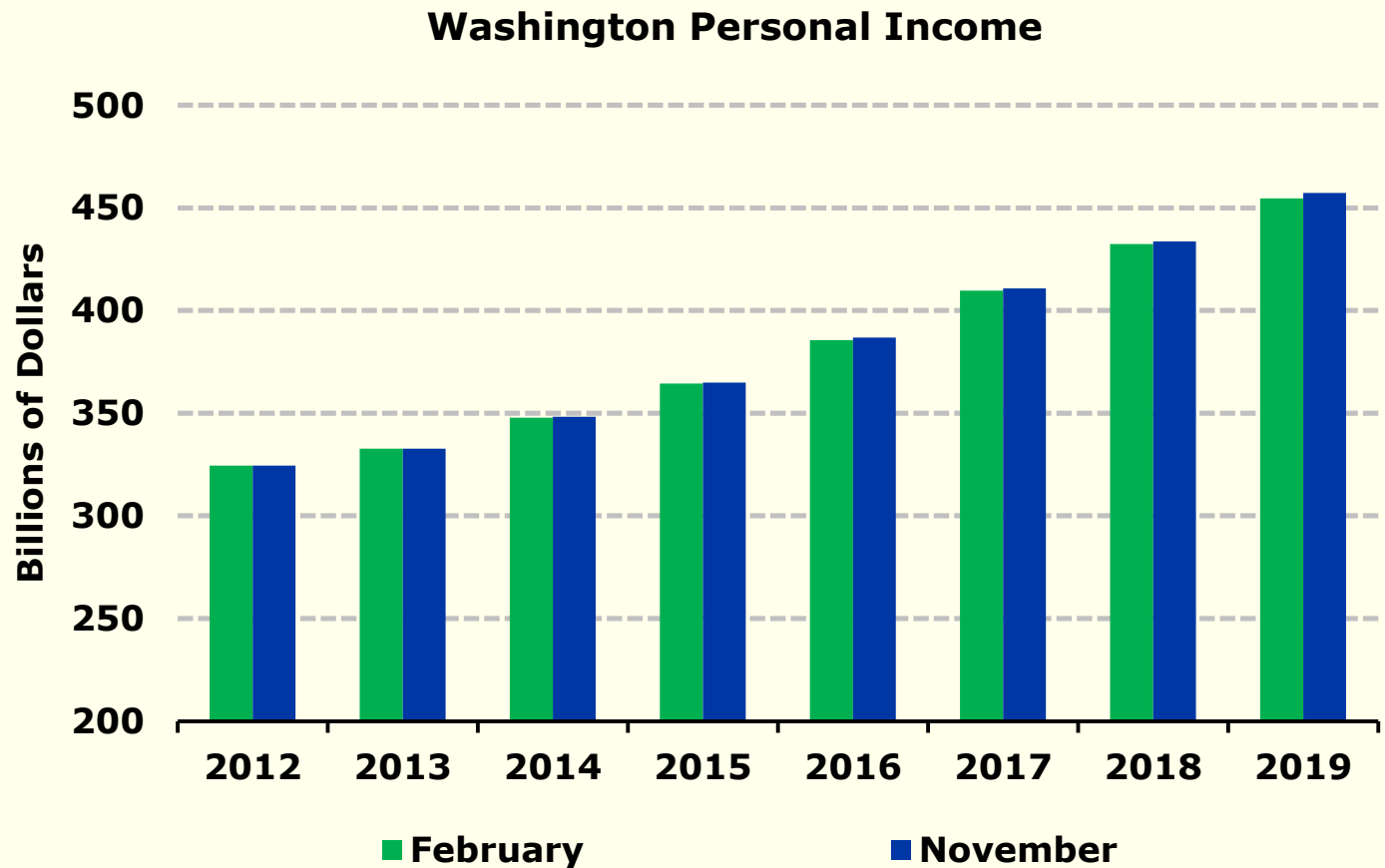


# U.S. economy has become less energy-intensive over time





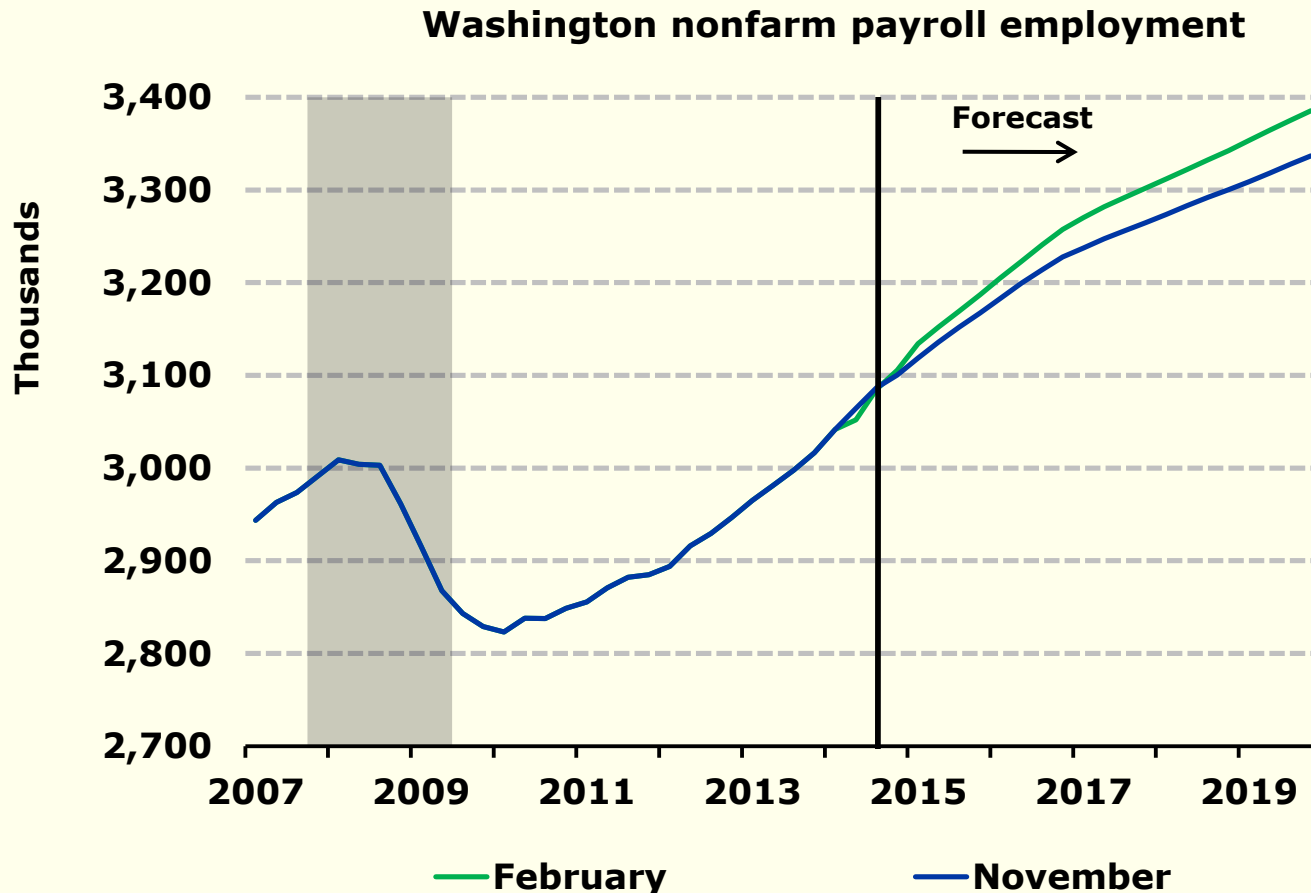
# Washington personal income forecast is almost identical to November forecast





# Washington employment forecast revised up slightly

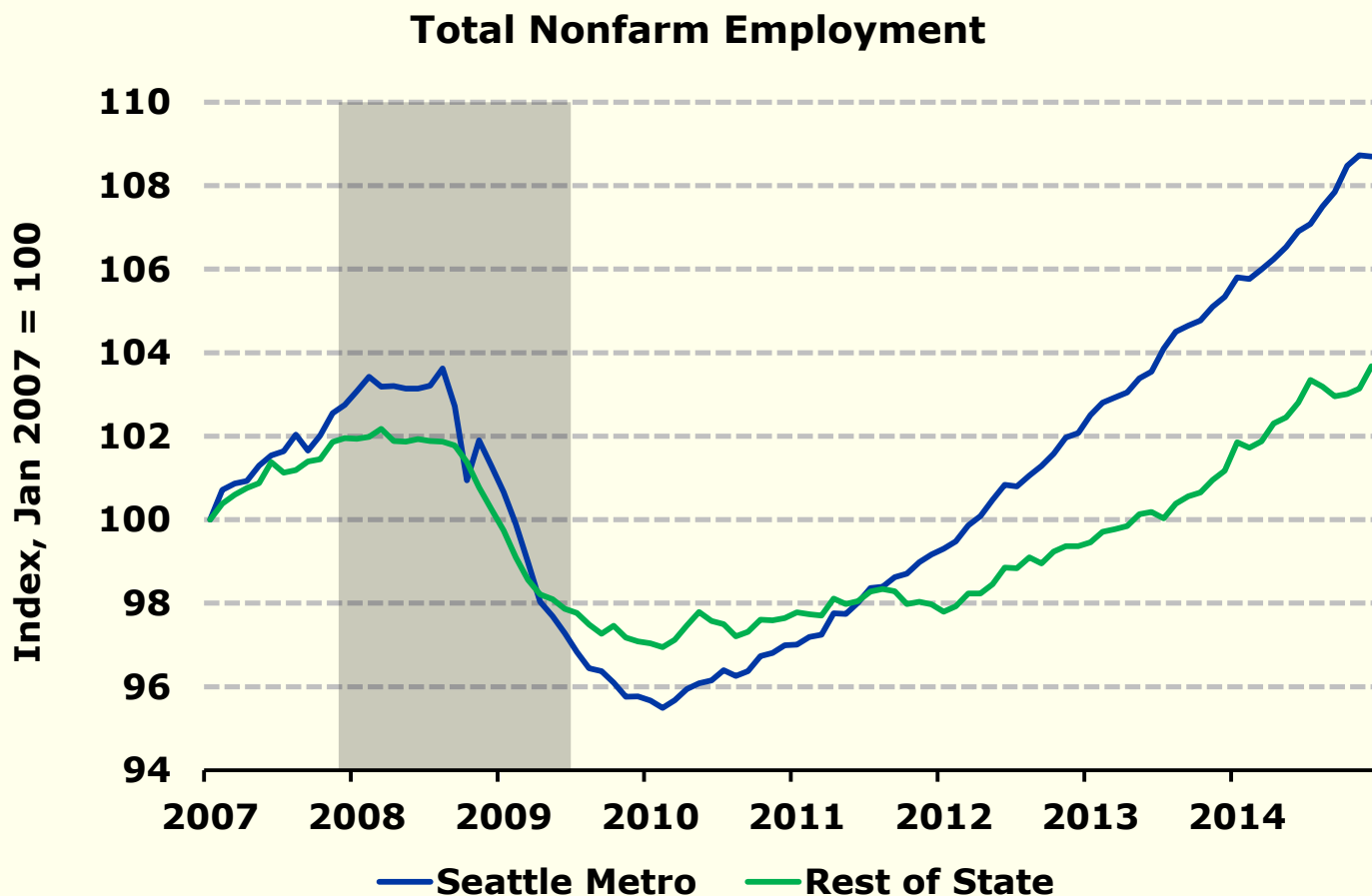
Average employment growth of 2.0% for 2014 to 2019 is slightly higher than in November



Source: Global Insight, ERFC February 2015 forecast; historical data through 2014Q4

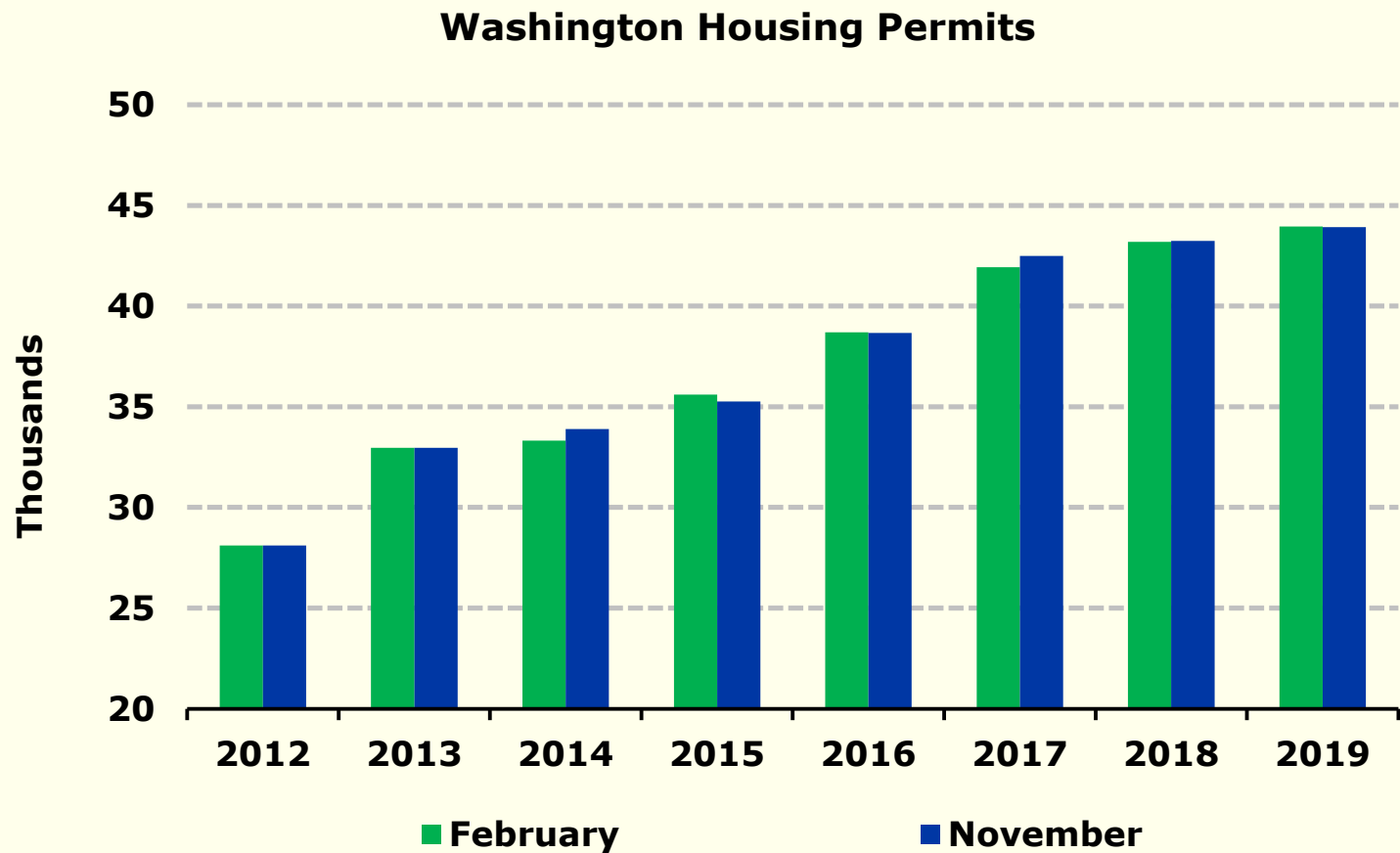


# Seattle area employment is growing much faster than the rest of the state





# Washington housing permits forecast is similar to the November forecast



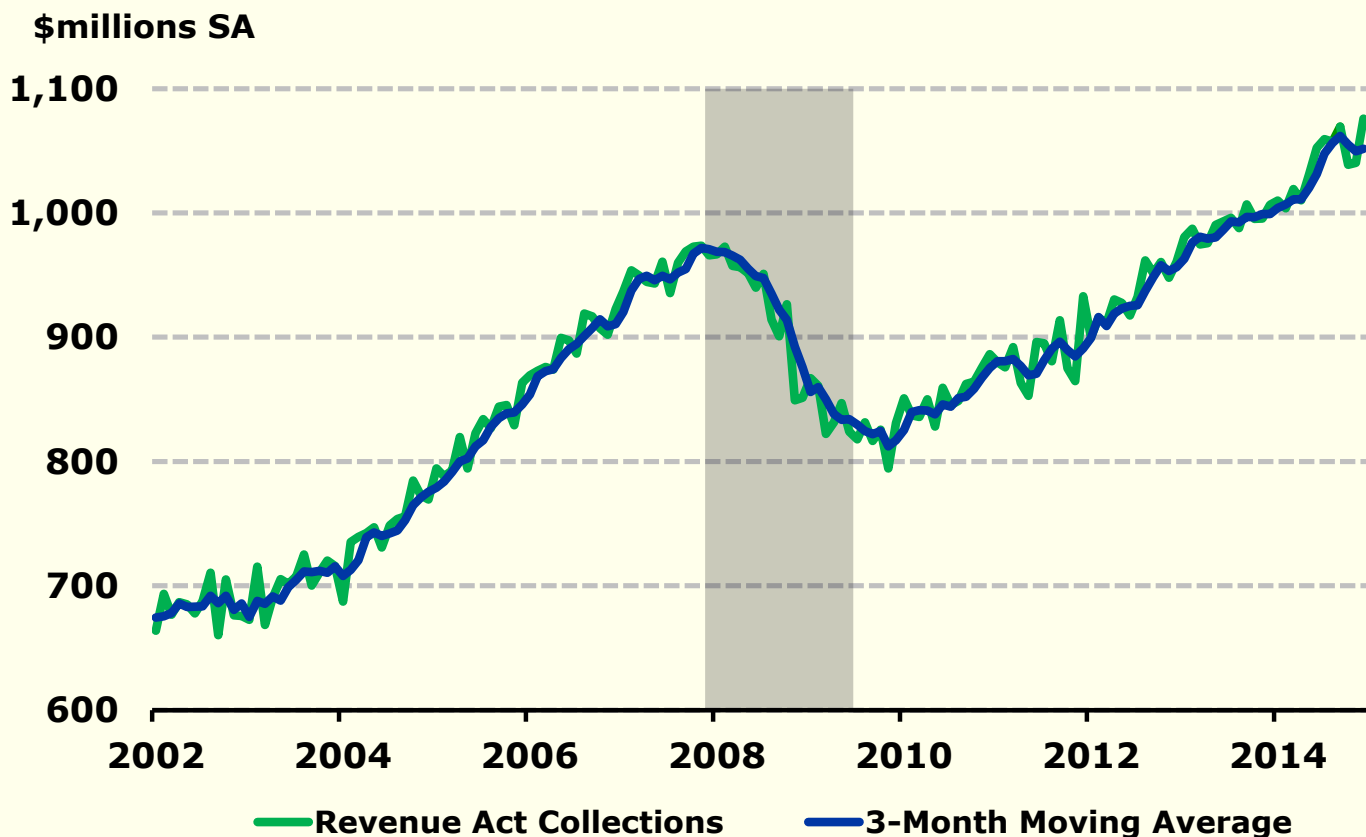




# The Q4 decline in Revenue Act collections was expected after a strong Q3

Adjusted Y-O-Y growth for 4<sup>th</sup> quarter activity was 5.8%. Third quarter growth was 7.2%.

Adjusted collections for 4<sup>th</sup> quarter activity came in only 0.3% higher than the November forecast.



\* Adjusted for large one-time transactions, amnesty payments and reporting frequency change, current definition of Revenue Act

Source: DOR and ERFC; monthly data through estimated December 2014 activity

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# Sales tax growth is strong

Adjusted sales tax collections were up 8.8% Y-O-Y for 3<sup>rd</sup> quarter activity and 9.0% for 4<sup>th</sup> quarter activity.

The decline in activity in the 4<sup>th</sup> quarter was due to the very strong 3<sup>rd</sup> quarter; growth is forecasted to resume

Growth is being driven by sales in construction, autos, and building materials.

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## Washington Retail Sales Tax Receipts

\$Millions, SA

700

650

600

550

500

450

2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014

— Retail Sales Tax

— 3-Month Moving Average

Adjusted for large payments/refunds, amnesty payments and taxpayer reporting frequency change

Source: ERFC; Monthly data through December 2014 preliminary activity

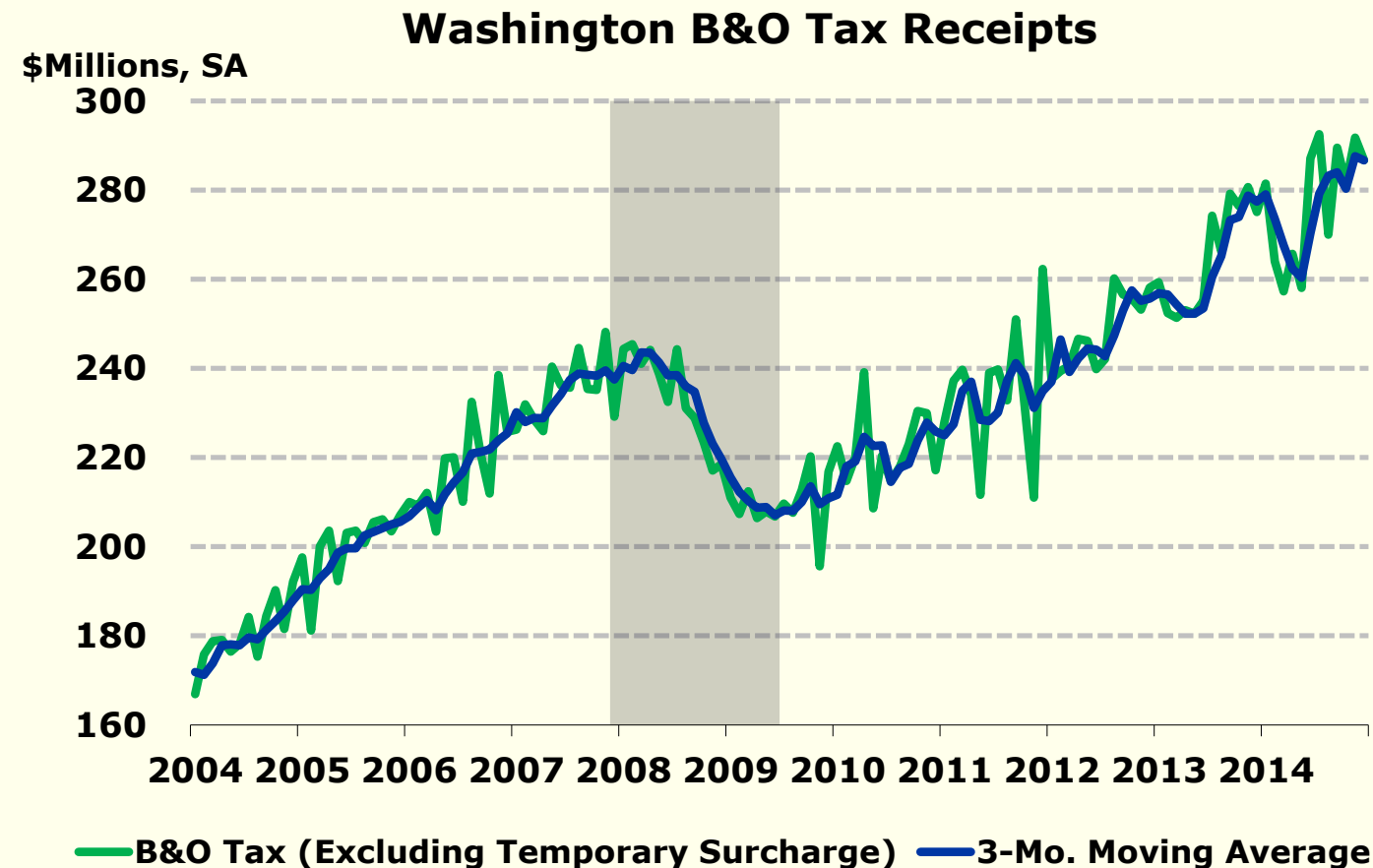
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# B&O tax collections uneven but growing

Collections grew 6.0% Y-O-Y in the 3<sup>rd</sup> quarter and 4.1% in the 4<sup>th</sup> quarter

Growth is expected to slow in the near term due to the effects of lower oil prices on refiners' and gas stations' gross receipts.





# REET continues to benefit from large commercial sales

Residential activity is increasing but is being hampered by lack of inventory.

Large commercial sales (>\$10 million) totaled \$1.07 billion in December and \$557 million in January.

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## Seasonally Adjusted Taxable Real Estate Excise Activity

\$Billions

10

9

8

7

6

5

4

3

2

1

0

1996

1998

2000

2002

2004

2006

2008

2010

2012

2014

Source: ERFC; Monthly data through January 2015 preliminary

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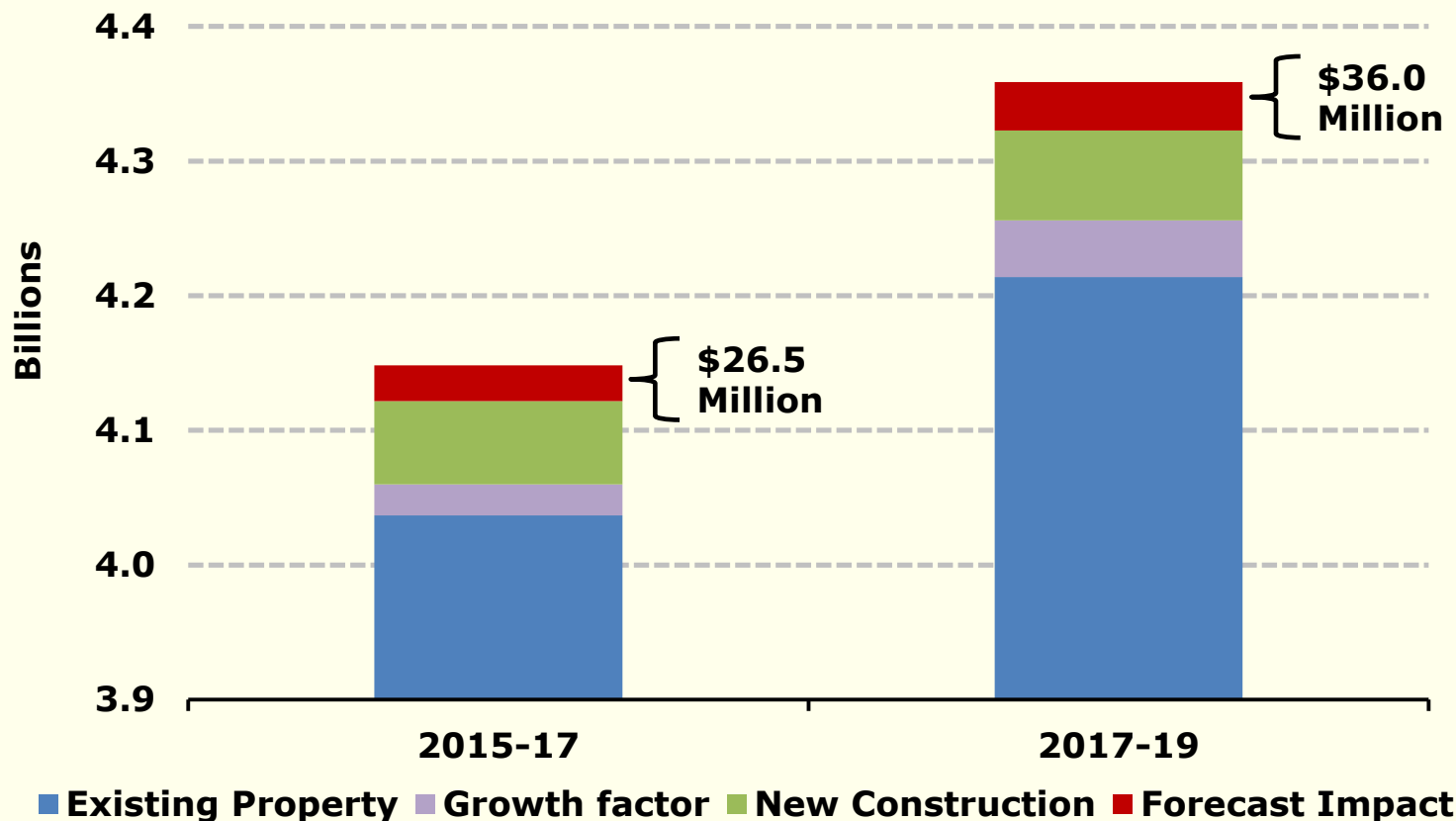
# Property tax growth limited to lesser of inflation or 1%

Property tax  
growth factor  
for 2015 =  
0.1%;

Forecast  
impact =

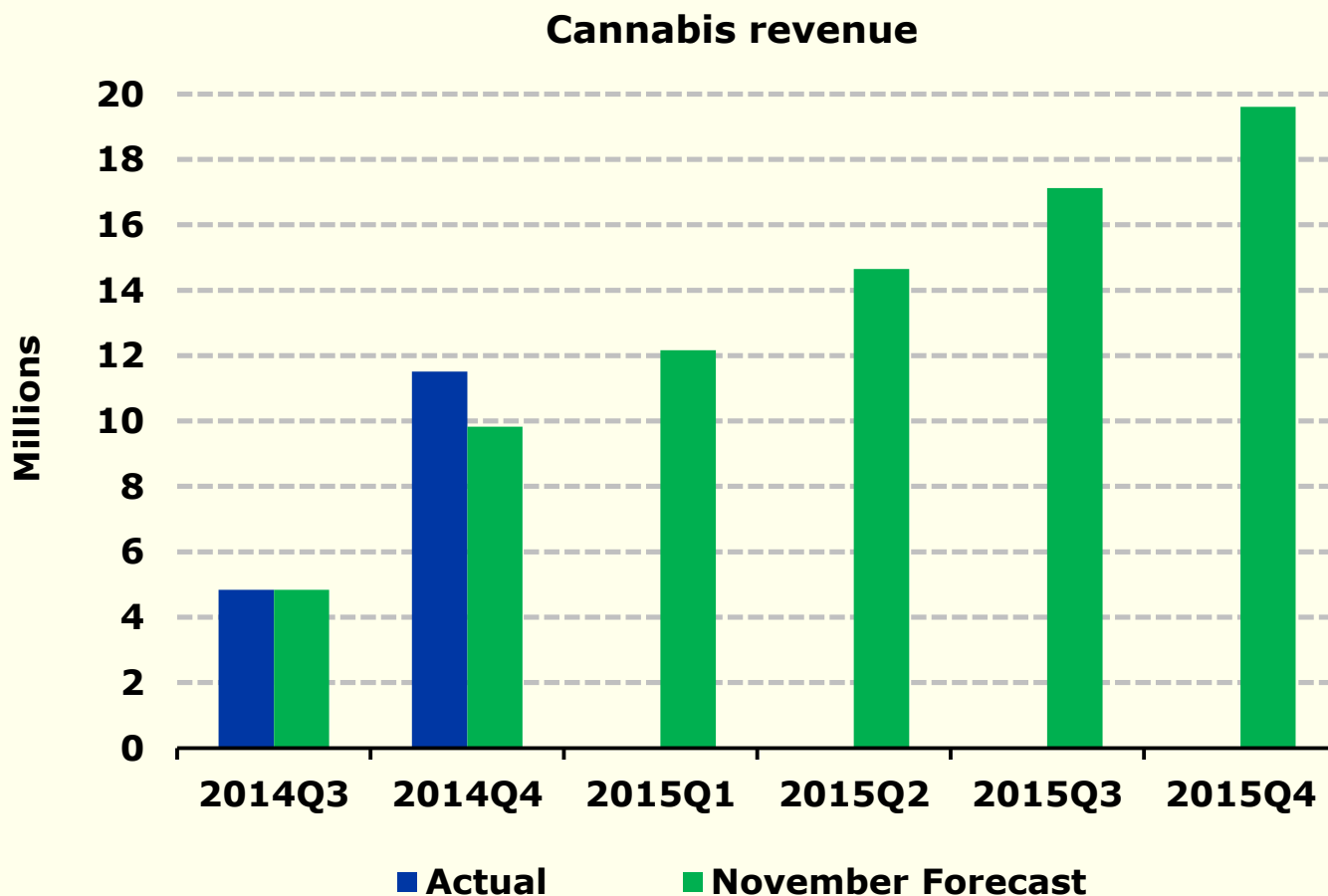
2015-17:  
-\$26.5 M

2017-19:  
-\$36.0 M





# Cannabis revenue is above forecast, but still needs to pick up





# Cannabis excise tax and license fee estimates

Total GF-S  
change from  
November  
forecast:

•2013-15  
+\$0.9 M

•2015-17  
+\$3.2 M

•2017-19  
+\$0.8 M

**\$Millions**

**February Forecast**

	<u><b>2013-15</b></u>	<u><b>2015-17</b></u>	<u><b>2017-19</b></u>
GF-S share of excise tax and license fees	\$6.7	\$39.3	\$65.7
Non-GF	\$36.8	\$182.3	\$297.1
<b>Total</b>	<b>\$43.4</b>	<b>\$221.6</b>	<b>\$362.8</b>

\* Detail may not add to total due to rounding

Source: ERFC, LCB, BOTEC Analysis

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# Forecast changes: General Fund State, 2013-2015 Biennium

**November  
Forecast:**

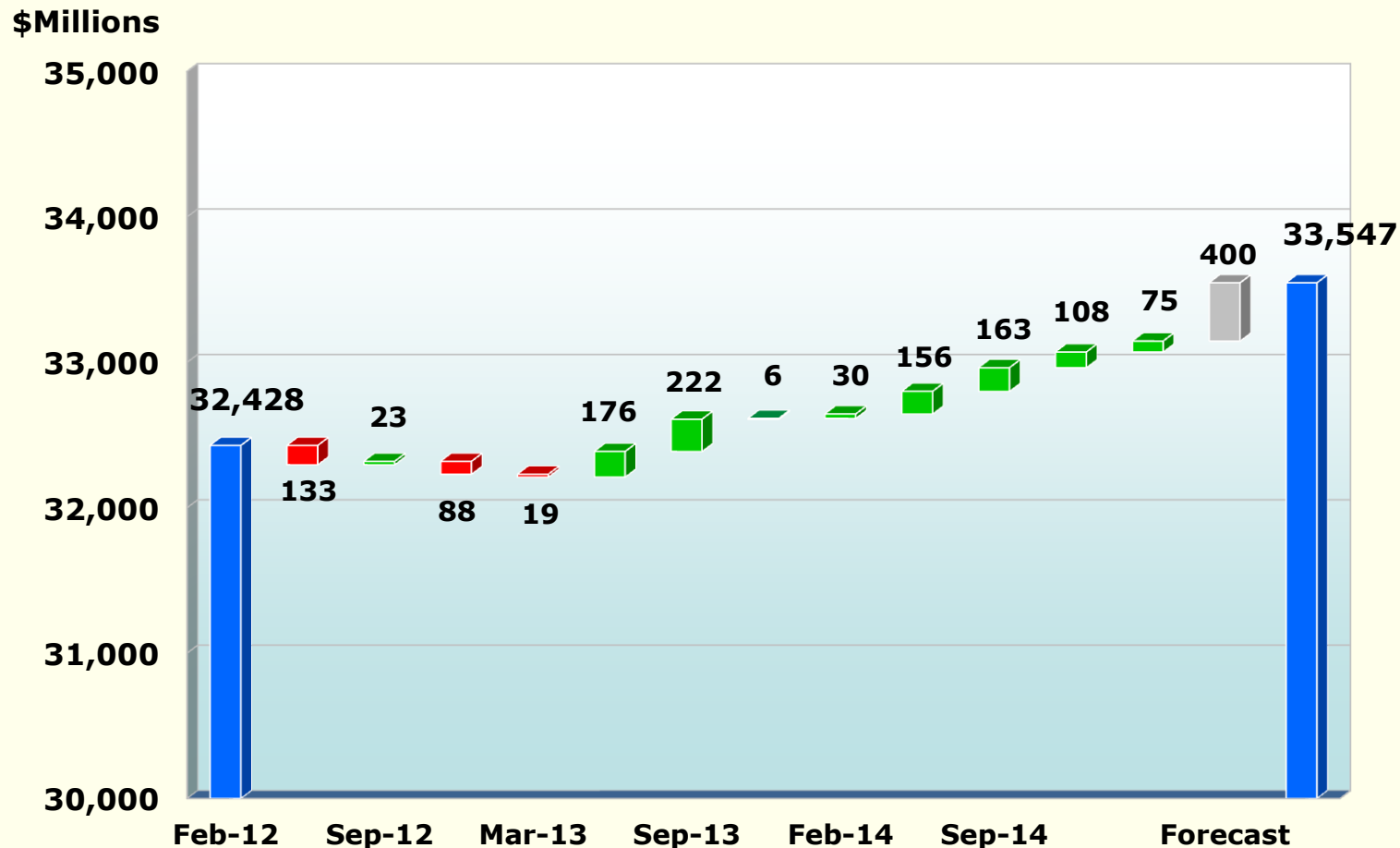
**\$33,440  
million**

\$Millions	February Forecast				
	<u>Collection Experience</u>	<u>Non-eco- nomic Change</u>	<u>Forecast Change</u>	<u>Forecast</u>	<u>Total Change*</u>
Dept. of Revenue	\$68	\$13	(\$3)	\$31,910	\$78
All other agencies	\$1	\$18	\$9	\$1,636	\$28
<b>Total GF-S</b>	<b>\$69</b>	<b>\$31</b>	<b>\$6</b>	<b>\$33,547</b>	<b>\$107</b>





# GF-S forecast revisions to the 2013-15 biennium



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Source: ERFC February 2012 – February 2015 forecasts  
Gray area indicates total noneconomic change

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# Forecast changes: General Fund State, 2015-2017 Biennium

**November  
Forecast:**

**\$36,319  
million**

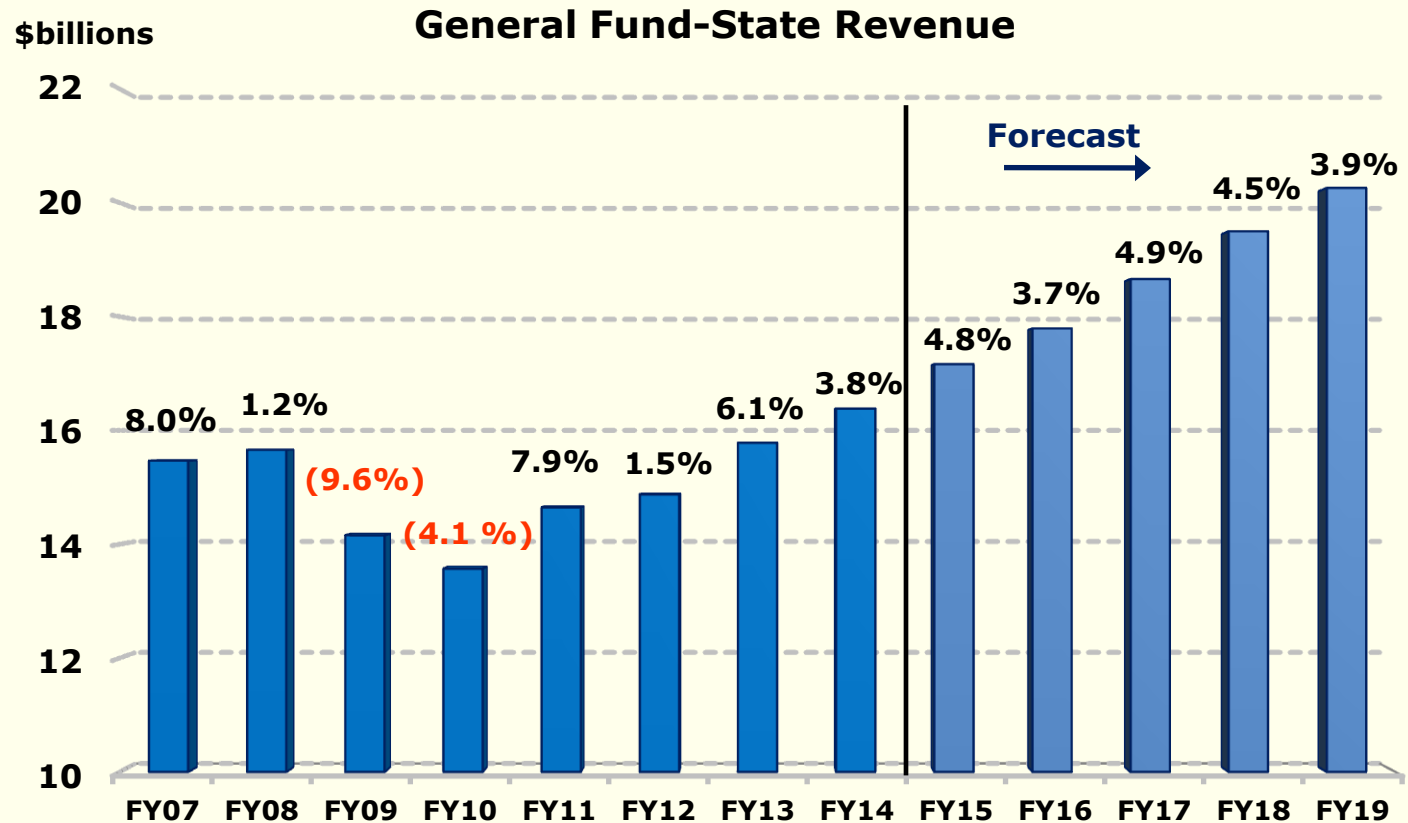
**\$Millions**

## February Forecast

	<u>Non- economic Change</u>	<u>Forecast Change</u>	<u>Forecast</u>	<u>Total Change*</u>
Dept. of Revenue	\$0	\$108	\$34,780	\$108
All other agencies	\$0	\$22	\$1,669	\$22
<b>Total GF-S</b>	<b>\$0</b>	<b>\$129</b>	<b>\$36,449</b>	<b>\$129</b>



# General Fund-State\* forecast by fiscal year





# 2013-15 Biennium alternative forecasts – cash basis

<b>\$Millions</b>	<b>2013-15 Biennium</b>	<b>Difference From the baseline</b>
<b>February 2015 Baseline (60%)</b>	<b>\$33,547</b>	
<b><u>February 2015 Alternative Forecasts</u></b>		
<b>Optimistic (20%)</b>	<b>\$33,965</b>	<b>\$418</b>
<b>Pessimistic (20%)</b>	<b>\$33,049</b>	<b>(\$497)</b>
<b>Probability Weighted Average</b>	<b>\$33,531</b>	<b>(\$16)</b>
<b>GCEA*</b>	<b>\$33,517</b>	<b>(\$30)</b>



# 2015-17 Biennium alternative forecasts – cash basis

<b>\$Millions</b>	<b>2015-17 Biennium</b>	<b>Difference From the baseline</b>
<b>February 2015 Baseline (60%)</b>	<b>\$36,449</b>	
<b><u>February 2015 Alternative Forecasts</u></b>		
<b>Optimistic (20%)</b>	<b>\$39,215</b>	<b>\$2,766</b>
<b>Pessimistic (20%)</b>	<b>\$33,392</b>	<b>(\$3,057)</b>
<b>Probability Weighted Average</b>	<b>\$36,391</b>	<b>(\$58)</b>
<b>GCEA*</b>	<b>\$36,223</b>	<b>(\$226)</b>



# Conclusion

- The economic forecast is quite similar to November's forecast, with the exception of lower oil prices
- We expect the moderate pace of the economic recovery to continue in both the U.S. and Washington economies
- GF-S revenues are expected to grow 9.4% between the 2011-13 and 2013-15 biennia and 8.7% between the 2013-15 and 2015-17 biennia
- The level of uncertainty in the baseline remains elevated, with risks on both the upside and the downside



# Questions



**Economic & Revenue Forecast Council  
1025 E. Union Avenue, Suite 544  
Olympia WA 98504-0912**

**[www.erfc.wa.gov](http://www.erfc.wa.gov)  
360-534-1560**